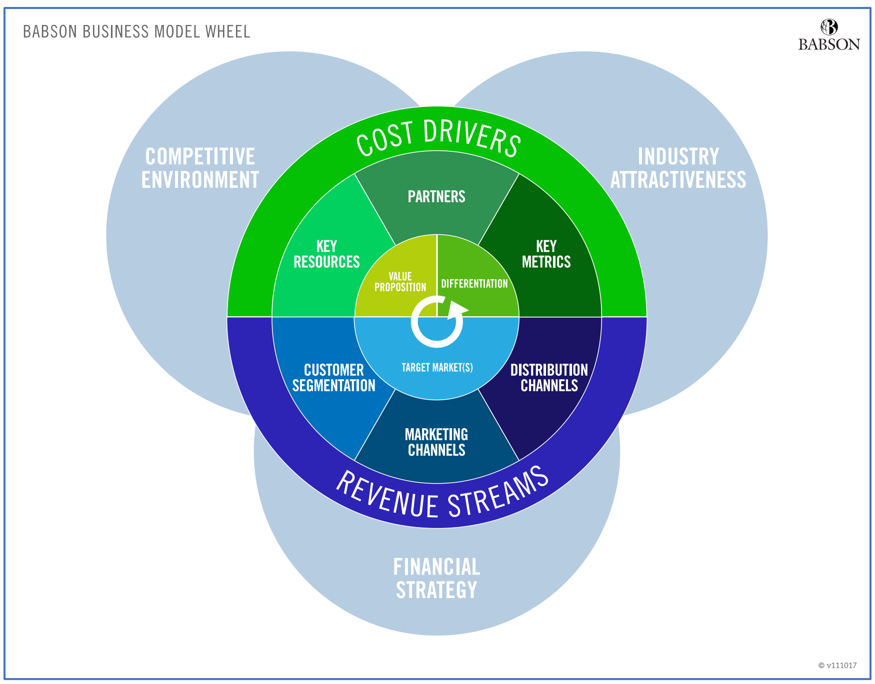
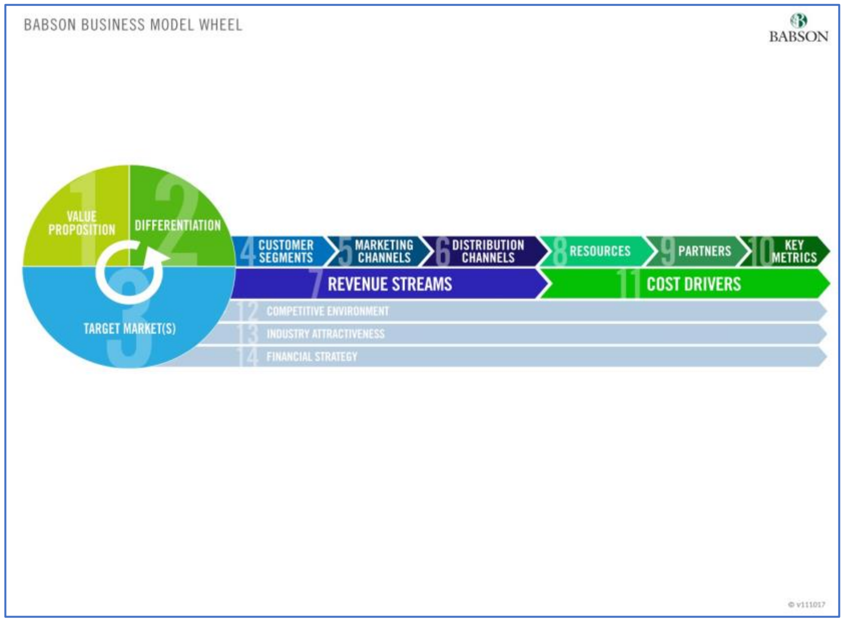
INTRODUCTION

Once you've identified your opportunity, the next step is to devise a strategy to pursue that opportunity. Although you're probably familiar with the basic strategy categories from previous coursework—differentiation, low cost, niche—many would-be entrepreneurs fail to grasp the intricacies of devising and implementing their strategy. All strategies are driven by the company's business model. At the heart of any successful startup is a business model that generates enough cash to sustainably grow and gain market share.

Many entrepreneurs focus too much on writing a pitch or business plan for the sole purpose of raising money, rather than proving to themselves that there is a large and growing market with an important need or problem to be addressed. When using this approach neither the pitch nor the business plan holds up to the scrutiny of investor inquiry because the most important questions and analysis are being put off to some future time after ample cash has been raised. While this approach might work well when money is in abundant supply, it ignores the most important depleting asset of any entrepreneur, time. The desire to execute an idea sometimes outweighs the importance of discovering precisely what you should be building and for whom. By putting the cart before the horse, you run the risk of building the wrong product for the wrong market and having to "pivot," which is a term that has become synonymous with "we screwed up and will have to spend more time and money to do the right thing."



Building a company from scratch is always a challenging task and one that deserves a thoughtful and thorough approach to understand the various elements that comprise your business model. Figures 1 and 2 represent the critical elements of any business model, how they relate to the competitive and industry context, and help to support a comprehensive financial strategy. There are a series of questions that accompany each element that need to be answered. Think of the Business Model Wheel as an experiment, or multiple experiments, each with a hypothesis that you plan to either prove or disprove. The purpose is to work through answering the most critical questions related to each element, assess their fit, and to try and find a model that is scalable and repeatable. It is an iterative process. This approach allows you to address several potential opportunities simultaneously, continuously iterating to discover what the customer wants and is willing to pay to solve an important problem. Once a working business model is found, it can be translated into an operating plan that the company can execute, while business plans have a tendency to go into a file cabinet.



So, what is the difference between a business plan, a business model and an operating plan? It’s all in the approach, timing and use. Business model exploration is an iterative process that should yield incredible knowledge and confidence in your idea. It can then be put into a tactical operating plan that can be shared with the company, executed, and monitored.

THE CORE *(Steps 1, 2 & 3)*

At the core of the business model wheel is the foundation upon which every great business is built – *The Value Proposition, Differentiation, and Target Market.* These are not necessarily created in the sequence in which they appear. It is best to work on them simultaneously and in concert with customer interactions.

The Value Proposition addresses the reasons why customers will purchase whatever it is that you are selling. It answers several key questions:

- What is it?
- Who is it for?
- Why do they need it?
- How does it work?
- What is unique or different?

The first four questions allow you to consider the product offering, the target audience, the compelling reason for them to take action, and the experience that you hope for them to have while using your product. Customers require a reason to purchase – an unmet need, a problem to be solved, an experience they desire to have. Your value proposition can be thought of as a collection of reasons why customers will part with their hard-earned money. The benefits of what you are providing must clearly outweigh the costs. In a world with endless possibilities and businesses competing for a share of wallet, your solution must address the customer’s problem

The Problem with Pivots

Though there have been many successful high-profile pivots namely Twitter, Paypal, Instagram, and Pinterest, the truth is that most fail. The pivots that do work usually occur during the customer discovery phase of a startup's life. This should be a period when the company is rapidly and inexpensively testing several ideas to determine which will resonate. During this phase when the company is in search of a repeatable, scalable business model, cash burn should be at a minimum. This ensures that if your first idea fails, you'll have time and money to try something else.

It's when a company tries to pivot during the execution phase that the chance of success become less, because a lot of real and political capital has been spent - the organization and operations have already scaled and the initial product is fully developed. At this point in the life of the company it has already raised two or perhaps three rounds of funding, scaled sales and marketing, and the company profile is higher than it would be in the discovery phase.

Pivoting at this point presents several challenges: 1) Investor fatigue and loss of confidence. Pivot once during the discovery phase and it can be interpreted as learning and adapting to the findings. Pivot two or three times and investors begin to wonder if it is worth continuing, especially if the pivot comes too late and after most of the capital has been used. 2) The best employees head for the door. There are two critical jobs in a startup – the people who make things and the people who sell things. The first do not enjoy scrapping everything that they have worked on previously in favor of a new thing. Simply put, developers hate to be whipsawed. You can usually sell one new vision, but too many times and they lose faith and move on. Salespeople, especially the good ones, will not hang around if the prospect of making money has once again been pushed off into the future. They will also protect their reputations with their best customers and not want to sell them and resell them a new story. Take too long to get the product right and once again the best people head for the door first.

The lesson here is do more experimenting and hypothesis testing early and you might preserve enough trust and money to try to successfully pivot once.

in a manner that focuses on the most important needs in new and different ways that yield the best results.

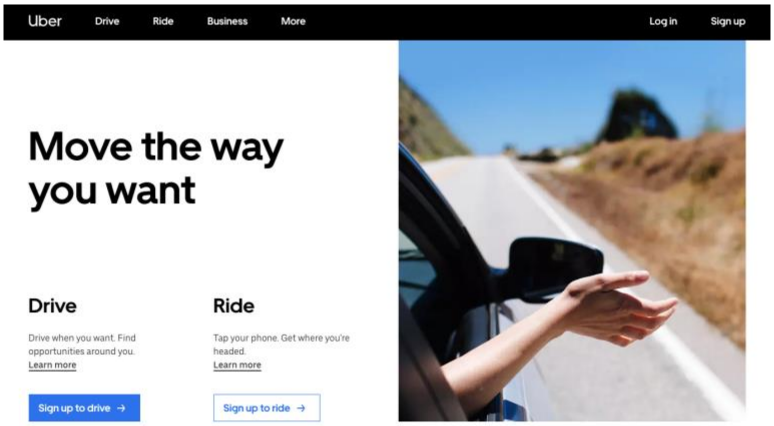
Differentiation is broken out as its own rather than being lumped in with the value proposition even though differentiation is an important part of the overall value proposition. This was done specifically to bring attention to one of the most overlooked and misunderstood elements of the value proposition.

Your differentiation must be something that is truly not easily copied in short order, or easily procured. It must be something that satisfies an important customer want or need in a significantly unique and beneficial way. To start, think of your differentiation as addressing one or more of three needs – *Air, Aspirin, or Addiction*. Air is a necessity. You need it to survive. Aspirin addresses a pain. Addiction is neither a necessity, nor a pain reliever, but something that you feel a strong desire to use. If you are addressing a necessity, you should ask yourself how the customer is solving the problem today and does your solution create enough of a benefit to convince them to switch? If you are addressing a pain, a good question to ask is, if you are addressing an issue that has, or will have, dire consequences if not addressed? In other words, are you solving a "top 3 problem" with adverse personal or economic ramifications for the customer? Addiction is more difficult to predict, but if achieved can have enormous market potential. For instance, who could have ever imagined that billions of people around the world would have Facebook accounts, or post photos regularly to Instagram?

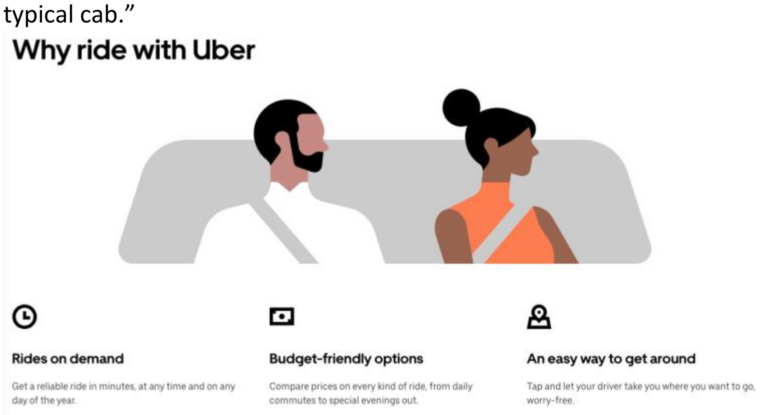
Your differentiation must also *resonate* with the customer. It is not enough to say that your product has 25 features, while your competitor's product only has 15. What is important is to have those few key features that the customer can't live without, or perhaps have high switching costs. For example, media measurement firm Nielsen Holdings Plc, moved 56,000 employees from Microsoft Corp.'s

Value Proposition Example: Uber's Unique Customer Value Proposition

Although Uber is widely criticized for its work culture, corporate governance, and treatment of its drivers, its Customer Value Proposition is simple and easy-to-understand. The message, "Move the way you want," which is taken from the company's homepage conveys to drivers and passengers alike what the service is and for whom.



Below the tag line it clearly outlines why they need this service. For drivers they can set their own hours of operation and work where they like. For passengers it conveys simplicity, "Tap your phone. Get where you're headed. If you want to know more, just click and find out how it works and, without explicitly stating, how it is unique and better than a typical cab."



business software to the paid versions of Google's G Suite. Nielsen executives realized that 60% of their employees were under the age of 35 and had years of experience using the free versions of Gmail and Google Docs. Despite having fewer features, the Google's products focus on "new ways of working" and more fashionable office trends, like remote work and consumer-style applications that millennials are more accustomed to using. [1]

Last, in order to close the deal, you should be able to *substantiate* any claims that you make about your product or service. Most customers do not like taking risk and will require more proof of the claims that you are making. Substantiation can be accomplished in any number of ways. Customer case studies and testimonials are just two that are often used along with product awards or more complex substantiation research. However, do not be tempted to push the limits when it comes to substantiation and it is probably good to even avoid simple *puffery*.[2] Remember that competitors, regulators and consumers will place a high level of scrutiny on any claims that you make. So be certain to establish and comply with a clear approval and due diligence policy for claims that you make about your product or service.

[1] https://www.itprotoday.com/collaboration/google-grabs-nielsen-business-apps-user-microsoft

[2] Puffery: General, favorable statements of exaggeration that cannot be proven and are not likely to be relied upon by consumers. Includes general claims of superiority that are understood by consumers as merely an expression of opinion.

THE MARKET ***(Steps 4, 5, 6, & 7)***
A common flaw of business plans and presentations, in particular in the high-tech industry, is the hyper-focus on the product or idea. Any seasoned investor will tell you that they invest first in teams and second in potentially large and growing market opportunities. While the idea is important, it does not paint a complete picture of the opportunity. As a first step, you should identify the target market, or markets for whom you are creating value. Even though this is a first step, the analysis should go much deeper than to simply identify what is commonly referred to as the *Total Available Market (TAM).* The TAM is best defined as the total market demand for a product or service. However, the biggest way to lose credibility with investors is to recite someone else's market research and then proclaim that you will get 1% or 2% of the TAM. This type of over simplified thinking will only serve to increase perceived risk in the minds of investors. Instead, do your own analysis of the market. At a minimum, drill down to the next level of market segmentation, the *Serviceable Available Market (SAM).* The SAM is the segment, or segments, of the TAM that you plan to target your product or service for sale. Initially, the targets identified are within realistic reach given your company's budget and location. This level of segmentation helps you identify those customer segments for whom the value proposition resonates and are likely prospects. Then, as will be explained in step #4, you can drill down even deeper to determine the portion of the SAM you can likely capture as customers. This segment is referred to as the Serviceable Obtainable Marketing (SOM).

Lack of Substantiation
It is never good to deceive the public by pushing the truth or making unsubstantiated claims. When companies cross the line it can cost them millions of dollars and lost trust from the negative publicity that usually accompanies scandals.

Take for instance Volkswagen who falsely advertised environmentally friendly diesel cars. In March of 2016, the Federal Trade Commission (FTC) filed a lawsuit against the company claiming that the VW had deceived customers with false claims of "Clean Diesel" vehicles. Prior to the lawsuit, it was exposed that the company had been cheating on emissions test for at least seven years.

The company was fined $4.3 billion in the U.S. to resolve criminal and civil penalties and an additional $1.18 billion by German authorities.

For example, let's assume that you are going to open a specialized fitness studio for women in your town that you hope to expand in the future. You TAM would be the worldwide fitness market. If you were the only game in town and had the ability to expand into every country, then the TAM would be your market, but this is not realistic.

If you are starting off in your town then demand for your studio will be based upon certain segments of the female population and their exercise habits. You might also make some comparisons to similar types of studios in towns with similar demographics to yours. Therefore, your SAM would be the estimated demand for your type of studio within your geographic area.

Since you are likely not the only exercise offering in your area, you would have to further segment the market by taking into consideration how far women are willing to travel to your studio and what other opportunities exist for them to get exercise. This narrower target would be your SOM.

The next three steps focus on outward customer facing elements of the business model. The purpose here is to build atop the foundation that you created in steps 1 – 3 by further identifying your customer segments and considering how you plan to communicate with them to build awareness, trial and purchase. Another element to consider is sales and distribution of your product or service and the ongoing relationship that your customer wishes to have with you. Finally, how to do you make money? What are the drivers of revenue and how will you price your product or service?

CUSTOMER SEGMENTS *(Step 4)*

In the early stages of a startup, both the customer and the offering are continuously being explored. As you begin to narrow down both, individual customer segments, especially those most likely to be early innovators and adopters of your product become better understood. We call this the *Serviceable Obtainable Market (SOM).* By understanding individual segment personas, size, and growth potential you can begin to answer critical questions related to how, why and where they will purchase? What and how they will pay? What is the extent of the relationship required and other services they wish for you to provide? And, how profitable each segment might be now and in the future?

Questions to consider:

- *What is the Segmented Obtainable Market?*
- *Where do they purchase?*
- *How do they purchase?*
- *Why do they purchase?*
- *What and how do they pay?*
- *What relationship is required for each?*
- *What other products or services do they want you to provide?*
- *How profitable is each segment?*

MARKETING CHANNELS *(Step 5)*

In the 1989 movie, Field of Dreams, an Iowa farmer, hearing voices, interprets them as a command to build a baseball diamond in his fields; he does and the 1919 Chicago White Sox show up along with hundreds of fans to watch them play without spending a dime to reach them! How you plan to communicate with the target customer(s) to build awareness, trial and purchase, and at what cost, is another consideration that is often overlooked especially by new entrepreneurs. A *Field of Dreams* marketing strategy rarely works. Even in some situations where lightning strikes and an inexpensive video goes viral, which happened with Dollar Shave Club's first video, this initial success must be followed up with a more comprehensive marketing strategy to build brand awareness.

Depending upon the type of business, the cost of customer acquisition can be a significant operating expense. Careful consideration and planning must be given to the target audience, the message, the appropriate channels, content types, and frequency necessary to build awareness of your brand.

Questions to consider:

- *What are the best ways to reach our target segments?*
- *What are their sources of information?*
- *Whom do they trust?*
- *What is the cost of customer acquisition (CAC)?*
- *What is the customer lifetime value (CLTV)?*

DISTRIBUTION CHANNELS (*Step 6)*

Determining the most appropriate and cost-effective channel is another consideration that will affect both cost and revenue potential. Today's customers want speed and convenience of purchase. It is important to understand the relationship and services that customers desire and factor it into your business model.

CAC and CLTV

The Cost of Customer Acquisition (CAC) and Customer Lifetime Value (CLTV) are two important measures of sales and marketing efficiency. These measures answer the simple question: Is the lifetime value of a customer (CLTV) more than the cost to acquire that customer (CAC)? You might also see this expressed as a ratio CLTV:CAC. In any case, you want your CLTV to be significantly higher than your CAC. If you are using the ratio a good rule of thumb is that CLTV should be at least 3 times more than the CAC, or a ratio of 3:1.

For founders this simple calculation provides answers to other important questions that are part of the business model like:

- Do I have the right go-to-market strategy?
- How much can/should I invest in sales and marketing?
- Which customers should I target and with which products/services?

These and other questions will cause you to think more about where you spend both your time and money to capture each additional customer.

There are a couple of ways to calculate CLTV. The first is with the formula:

CLTV = Average Revenue per Customer / Customer Churn

Or you can calculate CLTV using the following formula:

CLTV = Average Revenue per Customer x Average Customer Lifetime

For example, assume that you are selling a subscription to a mobile app for $6.00 per month and the average customer lifetime is 24 months. The CLTV is:

$6 x 24 = $144

CAC can be calculated using the formula:

CAC = Total Sales and Marketing expense / Number of New Customers

Let's assume that you spent $5,000 on online marketing to attract 135 new customers. Therefore, your CAC would be:

$5,000 / 135 = $37

The CLTV: CAC Ratio would then be $144 / $37 = 3.89

Questions to consider:

- *How will you reach the customer? Each segment?*
- *How are they reached today? Direct? Indirect? Owned? Partnered?*
- *What services/relationship is offered with each?*
- *Which channels work best?*
- *Are the channels integrated?*
- *Which channels are most cost efficient?*

REVENUE STREAMS *(Step 7)*

Revenue is often represented in the business plan as a series of annual numbers that grow exponentially year-over-year. When displayed graphically the revenue line resembles a "hockey stick." Ask how the numbers were determined and, at best, there might be some estimates of unit growth. Probe more deeply into the support for the numbers and the business case typically falls apart.

Revenue drivers, streams, pricing and margins need to be well understood and estimates based on primary, as well as secondary, research and comparable data. What drives revenue is customer demand. Customer demand is driven by market size and growth, and your ability to best meet market needs at a price and place that is amenable to the customer. Other things to consider are sales cycle time, frequency of purchase, volume of purchase, and breakeven points.

Streams of revenue relate to the variety of ways in which you make money by selling your product or service. Having multiple streams is often preferred to a single stream of revenue. Following are several examples of revenue streams:

- Unit Sales – Sell a product or service to customers on a per unit basis
- Advertising Fees – Sell opportunities to distribute messages
- Franchise Fees – Sell and support a replicable business for others to invest in, grow, and manage locally
- Utility Fees – Sell goods and services on a per-use or as-consumed basis
- Subscription Fees – Charge a fixed price for access to your services for a period of time or series of uses
- Transaction Fees – Charge a fee for referring, enabling, or executing a transaction between parties
- Professional Fees – Provide professional services on a time-and-materials contract
- License Fees – Sell the rights to use intellectual property

Pricing must also be given careful thought and be market tested, as it will affect margins. Here too there are a number of ways to determine the appropriate fixed or dynamic pricing methods. Perhaps the best example of dynamic pricing is Uber's "Surge Pricing." Employing an algorithm to set price proportionate to demand, prices increase during peak periods to encourage more drivers to go online.

As you can see there is a lot more to understanding revenue than the typical "hockey stick" graph might imply.

Questions to consider:

- *What are the drivers of revenue[3]?*
- *What are customers willing to pay? What are the pricing mechanisms?*
- *How do they pay? Are there alternative methods of payment?*
- *What is the average time to a sale? Frequency of purchase? Volume of purchase?*
- *What is the contribution margin?*
- *What are the breakeven points? (unit volume, sales volume)*
- *Where is there leverage in the revenue model?*

PRODUCT AND OPERATIONS *(Steps 8, 9, 10, & 11)*

Now that you have an understanding of the various customer segments and their needs, the question that remains is can you build a product or service cost effectively? Understanding resource needs and potential partnerships are necessary steps in answering this question. Understanding the resources necessary, their availability, and their associated costs are an important series of steps in understanding your business model.

RESOURCES *(Step 8)*

Understanding resource intensity is another important element of your business model. Resources tend to cluster around four categories: 1) Human resources; 2) Physical resources; 3) Intellectual resources; and, 4) Financial resources.

In some businesses people costs can add up to 70% to 80% of total operating expenses. Understanding how and when to recruit and onboard people is an extremely important exercise that can have a large impact on cash burn. As part of your overall operating plan, take time to understand what human resource are required at the various phases of company launch and growth. The hiring process takes time and finding the right fit is paramount for young companies.

Capital expenses can also weigh heavily on cash burn. Think about what assets truly need to be owned, versus rented or borrowed especially in the early years. For instance, do you really need to sign a two or three-year lease for space when you are just starting out? Or, would it make more sense to sublet space from another company that over-estimated their space needs? Low capital intensity can be a real advantage.

[3] Revenue drivers refers to the financial metrics used to identify the sources of revenue generation in a business. For instance, revenue drivers for a restaurant might include the number of diners, the menu items they choose, and the amount paid for each item.

Know what intellectual resources need to be protected. Patents can be expensive to file and expensive to defend. In some industries (i.e., software) there is an ongoing debate over patent reform. Be sure to stay up-to-date on changes to the laws and get legal advice.

Understanding the financial resources required to launch and grow your business is a necessary exercise. Undertaking the task of building an integrated pro forma financial statement is well worth the time and effort. It is imperative that you accurately estimate the total capital required to get to breakeven and how you plan to source that capital over time. Too many startups underestimate the capital requirements to achieve significant milestones that will allow them to raise additional capital at a higher valuation. This can lead to significant dilution for the founders at best, and bankruptcy at worst.

Questions to consider:

- *What key assets are required to deliver on the value proposition? (Human, Financial, Physical, Intellectual)*
- *Are these resources available to you at a reasonable cost?*
- *What can be rented, leased or borrowed rather than purchased?*

PARTNERS *(Step 9)*

Knowing what alliances, joint ventures and agreements with outside entities are required to deliver on the value proposition are important as they can affect time to market and cost to build and deliver your product or service. Understand the activities that are worth outsourcing versus those activities and capabilities that should be developed in house. Can you reduce risks and uncertainties through partnering? Especially in the early stages of company development it is helpful to understand what capabilities need to be owned and controlled and which are better off done by a trusted partner.

Questions to consider:

- *Who are your key partners?*
- *What value is delivered by each?*
- *How critical are partners to delivering the value proposition?*
- *What key resources or activities are delivered by each?*
- *What risks or uncertainties are reduced?*

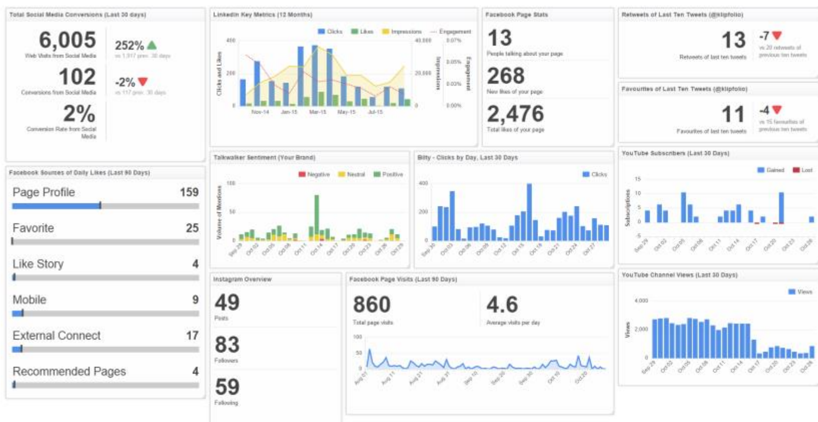
KEY METRICS *(Step 10)*

There is a wise adage that you can’t manage what you can’t measure. Recall that the business model is initially a hypothesis that you are trying to prove or disprove. Even after a working business model is found you must monitor your progress to plan. Most businesses are fairly good at monitoring financial results, but financials are a backward look at progress. Understand the most critical elements of your business model that inform your financials and build a dash board to monitor those elements in near real-time. This will help you understand patterns in your business that may help you address issues before they show up in your financial statements.

Questions to consider:

- *What are the key measures of business model success?*
- *How will value delivery to the customer be measured?*
- *How are performance standards developed?*
- *How do these metrics inform your revenue and costs?*

Dashboard Example



COST DRIVERS *(Step 11)*

Few startups cease to exist because the product doesn't work. When most startups fail it is because they ran out of money before achieving significant milestones that gave investors the confidence they needed to continue their support. Similar to revenue, you must understand what activities and resources drive costs. Unit costs to produce and deliver your product or service should be well understood. Every entrepreneur should understand how to calculate breakeven, cost to acquire a customer, and customer lifetime value, as well as other key metrics that drive costs and affect overall financial viability.

Questions to consider:

- *What are the cost drivers? (activities, resources, standards)*
- *What is the resource intensity of producing your product or service?*
- *What is the unit cost structure?*
- *Are there economies of scale or scope?*
- *What costs are fixed? Which costs are variable?*
- *Is the value proposition cost driven or value driven?*
- *Where is there leverage in the cost model?*
- *What is the cost to acquire a customer (CAC)?*
- *What are the working capital requirements?*

THE EXTERNAL ENVIROMENT AND FINANCIAL STRATEGY *(Steps 12, 13, &14)*

COMPETITIVE ENVIRONMENT *(Step 12)*
No business model should be developed in a vacuum. Context is everything, especially as it relates to the competitive environment and industry attractiveness. To say that you have no competitor is naïve and another signal that will raise perceived risk to investors. While you may believe that you have no direct competitors there are likely substitutes, potential new entrants and those existing players with the means to react to new market opportunities as they arise. At a minimum, having the customer remain with the status quo solution can be considered competition. A thorough and honest competitive review will leave you with an understanding all potential competitive threats now and in the future.

Questions to consider:

- *Who are the known competitors?*
- *Who might enter the market?*
- *Are there possible substitutes to your product or service?*
- *What are their strengths, weaknesses?*
- *What resources do they have?*
- *What will the intensity of the rivalry be like?*
- *How might they react to competitive pressures?*

INDUSTRY ATTRACTIVENESS *(Step 13)*
A bad business can usually be fixed. A bad team can be replaced. A bad industry should be avoided. Some industries have structural and regulatory challenges that simply make it extremely difficult for new entrants to compete effectively. Again, it is important to investigate the contextual factors that exist in your industry. Note the trends that may be helpful and those that may be harmful. Understand barriers to entry and exit and the industry structure. While there may be opportunities for disruption, be certain that size of the prize is worth the cost to play the game.

Questions to consider:

- *What if any contextual factors exist that are favorable/unfavorable for the business?*
- *Possible regulatory changes?*
- *Global economic changes?*
- *Consumer and business trends*

FINANCIAL STRATEGY *(Step 14)*
The financial strategy is the last step in the process and it should support the execution of the business model. The plan should clearly document all of the critical assumptions made in the business model, as well as the effect that changes to these assumptions will have on capital requirements. Is the amount of capital required under different scenarios available at a reasonable cost? What can go right? What can go wrong? What can you do to mitigate risks?

Questions to consider:

- *How much capital is needed to execute the business model?*
- *Is this capital accessible and at a reasonable cost?*
- *What are the critical assumptions in our financial model?*
- *What is the financial impact of positive/negative changes to these assumptions?*

BABSON BUSINESS MODEL WHEEL

BABSON

1 VALUE PROPOSITION

The reasons why customers will purchase from you

- What is it?
- Who is it for?
- Why do they need it?
- What job does your product/service perform for your customer?
- How important is the problem that you are solving for the customer?
- How does it work?
- What is unique or different?

2 DIFFERENTIATION

What is the customer's problem and how do you solve it?

- What is truly unique about your product?
- Which attributes resonate with your target customer?
- Is there a durable advantage? Why?
- Can the value be substantiated quantitatively or qualitatively?
- What is the compelling reason for someone to buy your product vs. the competition's?
- Why is it difficult to copy or purchase elsewhere?

3 TARGET MARKET(S)

The groups for whom you are creating value

- For whom are you creating value?
- What is the Total Available Market?
- What is your formula for success in terms of how customers view the Value Proposition – Differentiation – Channel - Pricing?

4 CUSTOMER SEGMENTS

Individual segment personas, size, growth and importance

- What is the Serviceable Obtainable Market?
- Identify each potential market segment
- Compare the needs of each segment
- Where do they purchase?
- How do they purchase?
- Why do they purchase?
- What and how do they pay?
- What relationship is required for each?
- What other products or services do they want you to provide?
- How profitable is each segment?

5 MARKETING CHANNELS

The ways in which you communicate with customers

- What are the best ways to communicate with our target segments?
- What message(s) are you trying to convey to each segment?
- What action(s) do you want to influence?
- What is the cost of customer acquisition (CAC)?
- What is the Customer Lifetime Value (CLTV)?

6 DISTRIBUTION CHANNELS

The ways in which you sell to customers

- How will you reach the customer? Each segment?
- How are they reached today? Direct? Indirect? Owned? Partnered?
- What services/relationship is offered with each?
- Which channels work best?
- Are the channels integrated?
- Which channels are most cost efficient?

7 REVENUE STREAMS

Revenue drivers, streams, pricing, margins

- What are the drivers of revenue?
- What are customers willing to pay? What are the pricing mechanisms?
- How do they pay? Are there alternative methods of payment?
- What is the average time to a sale? Frequency of purchase? Volume of purchase?
- What are the margins (gross profit, operating profit, net profit, contribution margin)?
- What are the breakeven points? (unit volume, sales volume)
- What is your proposed revenue model? Why?
- Where is there leverage in the revenue model?

8 RESOURCES

Physical, intellectual, human, and financial resources

- What key assets are required to deliver on the value proposition? (Human, Financial, Physical, Intellectual)
- Are these resources available to you at a reasonable cost?
- What can be rented, leased or borrowed rather than purchased?

9 PARTNERS

Alliances, joint-ventures, agreements with outside entities

- Who are your key partners?
- What value is delivered by each?
- How critical are partners to delivering the value proposition?
- What key resources or activities are delivered by each?
- What risks or uncertainties are reduced?

10 KEY METRICS

Critical activities that need to be monitored and measured

- What are the key measures of business model success?
- How will value delivery to the customer be measured?
- How are performance standards developed?
- How do these metrics inform your revenue and costs?

11 COST DRIVERS

Cost drivers, expenses and working capital requirements

- What are the cost drivers? (activities, resources, standards)
- What is the resource intensity of producing your product or service?
- What is the unit cost structure?
- Are there economies of scale or scope?
- What costs are fixed. Which costs are variable?
- Is the value proposition cost driven or value driven?
- Where is there leverage in the cost model?
- What is the cost to acquire a customer (CAC)?
- What are the working capital requirements?

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12 COMPETITIVE ENVIRONMENT

Direct / Indirect competitors, substitutes, and potential new entrants

- Who are the known competitors?
- Who might enter the market?
- Are there possible substitutes to your product or service?
- What are their strengths, weaknesses?
- What resources do they have?
- What will the intensity of the rivalry be like?
- How might they react to competitive pressures?

13 INDUSTRY ATTRACTIVENESS

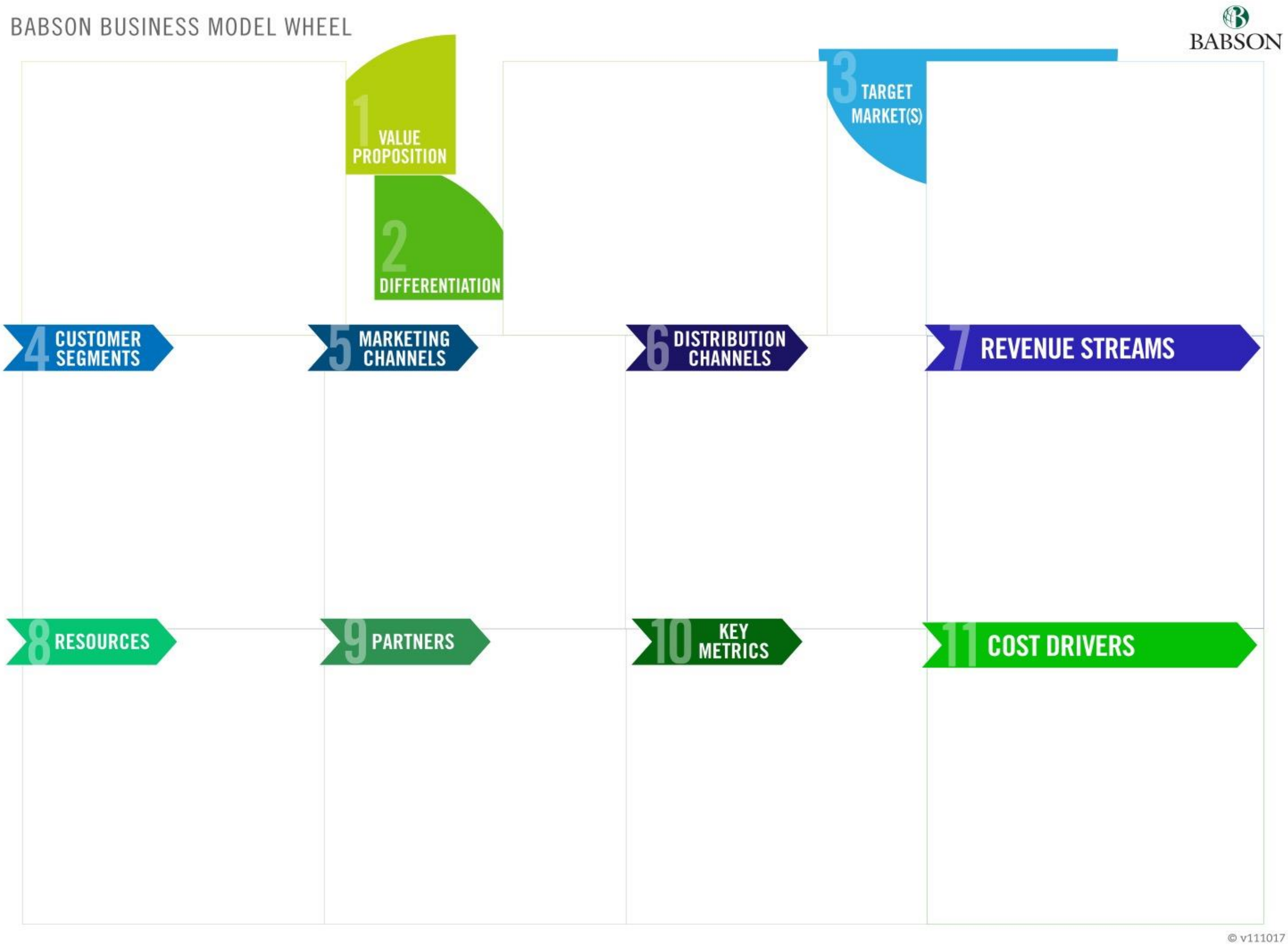
Trends, regulatory environment, concentration / fragmentation, opportunities for disruption

- What if any contextual factors exist that are favorable/unfavorable for the business?
- Possible regulatory changes?
- Global economic changes?
- Consumer and business trends?
- Barriers to entry or exit?
- Switching costs?

14 FINANCIAL STRATEGY

Financing requirements, access to capital, ability to support business model execution

- How much capital is needed to execute the business model?
- Is this capital accessible and at a reasonable cost?
- What are the critical assumptions in our financial model?
- What is the financial impact of positive / negative changes to these assumptions?
- Have you developed multiple scenarios of financial performance?
- What can go right? What can go wrong?
- What is the biggest risk in your venture? What is the impact and how do you plan to minimize it?


BABSON BUSINESS MODEL WHEEL
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1 VALUE PROPOSITION
2 DIFFERENTIATION
3 TARGET MARKET(S)
4 CUSTOMER SEGMENTS
5 MARKETING CHANNELS
6 DISTRIBUTION CHANNELS
7 REVENUE STREAMS
8 RESOURCES
9 PARTNERS
10 KEY METRICS
11 COST DRIVERS
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BABSON BUSINESS MODEL WHEEL

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12 COMPETITIVE ENVIRONMENT

13 INDUSTRY ATTRACTIVENESS

14 FINANCIAL STRATEGY